

BUDGET AND FINANCIAL POLICIES

The City of Durham's budget and financial policies serve as the basis for developing the annual operating budget and the six-year Capital Improvement Program. The policies also serve as the basis for the City's overall financial management.

The Local Government Budget and Fiscal Control Act governs much of the activities that occur in budget preparation and execution. The City has placed other policies on itself voluntarily in order to address issues that are specific to Durham. Both types of policies are noted below.

Operating Budget Policies

State Statutes:

- The City of Durham will operate under an annual balanced budget ordinance in which the sum of estimated net revenues and appropriated fund balance is equal to appropriations.
- By State Statute, the annual budget for all city funds, including enterprise funds, is prepared using the modified accrual basis of accounting. This basis of accounting recognizes revenues either when they are received in cash (such as licenses or fines) or when the collection of the amount can be reasonably estimated to be received in the near future (such as property taxes). Expenditures in a modified accrual system are generally recognized in the period in which goods or services are received or when a liability is incurred. Beginning with the FY 2001-02 Comprehensive Annual Financial Report, the City is accounting for its funds on both a full accrual and a modified accrual basis, in compliance with GASB 34.
- The General Fund and the Civic Center Fund have officially adopted annual budgets. The appropriations in the budget ordinance within the general fund are on a functional basis. Although General Statutes and generally accepted accounting principles do not require an annual balanced budget for the remaining funds, all governmental and enterprise funds have legally adopted balanced budgets.
- The City may establish and operate one or more internal service funds. At the same time that it adopts the budget ordinance, the City Council must approve a balanced financial plan for each internal service fund. A financial plan is balanced when estimated expenditures do not exceed estimated revenue.
- All grants received from the federal or state governments for operating or capital purposes will be recognized in separate grant project ordinances. A balanced grant project ordinance must be adopted prior to beginning the project. A grant project ordinance is balanced when estimated expenditures do not exceed estimated revenue. Information on each grant project ordinance is included in the Annual Budget.
- The City's budget ordinance will cover a fiscal year beginning July 1 and ending June 30. In order to have the budget ordinance approved by July 1, the Preliminary Budget, together with a budget message, will be submitted to the City Council no later than June 1.

- A public hearing will be held on the Preliminary Budget prior to adoption of the budget ordinance. Notice of this public hearing will be published in the Herald-Sun. This notice will also state that the Preliminary Budget has been submitted to the City Council and that a copy of the budget is available for review in the City Clerk's office.

City Policies:

- The City's budget will be presented in a program budget format that includes program summaries, current year accomplishments, proposed year budgetary changes, proposed strategies to be employed, and performance measures for each major program or service.
- The City's budget will include five-year revenue and appropriation projections for the General Fund and all major enterprise funds. These projections integrate the current financial picture with the outlook over the next five years.
- The City Manager has the authority to transfer funds within a departmental budget or within a functional category as set in the budget ordinance (i.e. from Fire to Police, within the same fund). The Budget and Management Services Department staff reviews all budget transfer requests and authorizes all transfers at or below \$5,000. The City Manager or Assistant City Manager must authorize all transfers above \$5,000. All administrative budget transfers are documented by the Budget and Management Services Department and tracked in the City's general ledger.
- A budget ordinance amendment is necessary whenever a change is required in the original Budget Ordinance. Examples of such changes include changes to fund total or changes between functional category (i.e., moving funds from the Nondepartmental category to the Governance category in the General Fund). Any amendment must ensure that revenues and appropriations remain balanced. Budget ordinance amendments must be approved by the City Council. All budget ordinance amendments are documented by the City Clerk and the Budget and Management Services Department and tracked in the City's general ledger.

Fund Balance Levels

(City Policy, by resolution adopted June 21, 1999)

General Fund

- The City Council deems it desirable to achieve an undesignated fund balance level of 15% of adjusted appropriations. "Adjusted appropriations" shall equal total appropriations minus appropriations for debt service and transfers to other funds.
- Undesignated fund balance as a percentage of adjusted appropriations shall be no less than 12% of General Fund adjusted appropriations.
- Any fund balance between 12% and 15% of adjusted General Fund appropriations may be appropriated by the City Council, at its discretion, provided that the level of undesignated fund balance is not reduced below 12%.

- To limit the use of fund balance in the General Fund in any two-year budget preparation cycle, the maximum appropriation from fund balance shall be equivalent to a total of four cents on the prevailing tax rate over the two-year planning period.
- Any fund balance beyond 15% of General Fund adjusted appropriations shall be transferred to the Capital Projects Fund. This transfer shall be made upon completion of the annual financial audit. It is the intent of the City Council to effect this transfer through an amendment to the subsequent year's Budget Ordinance.
- Fund balance for FY 2005-06 is returned to 12%, which is the City's minimum goal. The fund balance for the three prior fiscal years had been reduced to 10%, related to the withholding of revenue by the State of North Carolina.

Capital Improvement Program

State Statutes

- The City will appropriate all funds for capital projects with a capital project ordinance in accordance with State Statutes.

City Policies

- The Capital Improvement Program (CIP) is a statement of the City of Durham's policy regarding long-range physical development. This plan is developed for a six-year period and is updated and revised annually. To be included in the CIP, each project must require a total expenditure of \$100,000 and have a useful life of at least six years.
- In all likelihood, the completion of capital projects will impact the departments' operating budgets as projects are completed and require maintenance and upkeep. Consequently, the impacts of capital projects on the annual operating budget are estimated and noted in the CIP.
- It is essential that CIP project proposals support, rather than contradict, plans and policies previously adopted by the City Council in order to coordinate and direct the physical development of the City. In evaluating each CIP proposal, particular attention is given to conformity of proposals with the Comprehensive Plan, the City's broadest overall policy and planning tool for managing growth.
- The CIP assumes the use of installment sales financing exclusively for either facilities that house city functions or facilities that are joint private-public ventures. This assumption is consistent with the stated goals of maintaining the existing infrastructure and providing city services in an effective and efficient manner.
- The CIP assumes the dedication of investment income toward general capital projects. By City Council resolution, all investment income derived by the General and Capital Projects Funds is dedicated to the Capital Projects Fund. This allows the City flexibility to accelerate or decelerate the spending schedules for capital projects funded on a pay-as-you-go basis depending on the rate of return received for the City's pooled cash. Due to the Governor's

actions on state-shared revenues for FY 2001-02 and FY 2002-03 and the continued downturn in the economy, investment income remains in the General Fund.

- The City will plan the use of water and sewer operating fund appropriations to capital projects on a multi-year basis to ensure that any future rate increases will be as level as possible throughout the planning period.

